

Equipment Services Fund Deficit Reduction Plan (Update) January 17, 2003

Description of the Fund:

The Equipment Services Fund (ESF) is used to account for the ownership and operation of a fleet of motorized equipment and vehicles. The fund operates as a rental agent to various departments to support the construction and maintenance of City infrastructure, fire protection services and police services.

Background on Current Financial Condition:

The ESF is in an overall negative financial condition. Revenue has not been adequate to cover expenditures since 1997, with the exception of 2001. The retained earnings deficit in the fund as of 12-31-01 was \$3.7 million. Retained earnings represent the cumulative annual results of revenues and expenses in the fund. In addition, the cash deficit in the ESF as of 12-31-01 was \$8.6 million.

Deficit Reduction Plan (Update):

During 2001, the Public Works and Finance Departments prepared and submitted to City Council a financial workout plan to improve the financial condition of the ESF. The plan made four recommendations:

1. Convert existing outstanding variable rate debt to fixed rate and structure long-term debt to allow for a debt service schedule that fits within estimated cash flows. **During 2001, the City retired \$20.1 million in variable rate debt and replaced it with 5% fixed rate debt. In addition, future debt service will be structured to fit within estimated future cash flows.**
2. Identify annual funding level and financing method for future equipment/fleet purchases. **The original workout plan recommended baseline equipment purchases of \$6 million in 2001, with cumulative \$100k increases to the base in each successive year. The only exception was from 2005 to 2006, which recommended a \$600k increase to the base. Subsequent adopted annual budgets have included these increases.**
3. Transfer available General Fund reserves (potential annual reserves in excess of the 10 percent General Fund requirement) to the Equipment Services Fund. **During 2001, \$5.2 million was transferred to the ESF from the General Fund.**
4. Commit to raising annual revenue needed to cover the full cost of providing equipment services. **The original workout plan programmed in \$20.4 million in revenue increases from 2002-2012. Subsequent adopted annual budgets have included these increases.**

Comparison to Original Plan:

Two important indicators of the financial health of this fund are retained earnings and cash. Table One provides a *plan to actual* comparison of retained earnings.

Table One			
Equipment Services Fund			
Retained Earnings Comparison (Plan to Actual/Updated)			
Year	Original Plan-Corrected	Actual/Updated	Difference
2001	(5,165,754)	(3,700,917)	1,464,837
2002	(7,598,603)	(3,280,533)	4,318,070
2003	(8,802,634)	(1,895,655)	6,906,979
2004	(7,819,968)	1,275,439	9,095,407
2005	(5,080,828)	3,641,289	8,722,117
2006	(754,228)	4,823,461	5,577,689
2007	4,352,360	6,272,894	1,920,534
2008	6,737,925	7,176,791	438,866

The original workout plan was corrected because it erroneously treated bond proceeds as a non-operating revenue, similar to the budgetary treatment of bond proceeds. The updated workout plan treats bond proceeds as an increase to cash and eliminates it as a revenue-producing amount. This treatment is consistent with Generally Accepted Accounting Principles. Aside from the bond proceeds reclassification, the fund has outperformed the workout plan by \$1.5 million. The majority of this can be attributed to greater than expected demand for heavy equipment and operators because of the Heritage Park and LRT projects. If the ESF continues to operate at its current trajectory, it will see positive retained earnings three years earlier than projected in the original plan.

Table Two provides a *plan to actual* comparison of cash.

Table Two			
Equipment Services Fund			
Cash Balance Comparison (Plan to Actual/Updated)			
Year	Original Plan	Actual/Updated	Difference
2001	(11,201,390)	(8,558,302)	2,643,088
2002	(9,337,119)	(4,019,846)	5,317,273
2003	(7,435,903)	539,245	7,975,148
2004	(4,426,599)	4,830,210	9,256,809
2005	(925,822)	7,386,522	8,312,344
2006	3,014,299	7,858,853	4,844,554
2007	7,224,800	8,135,163	910,363
2008	11,287,471	10,391,972	(895,499)

The positive difference in the current plan when compared to the original can also be attributed to the increased demand for heavy equipment and operators

because of the Heritage Park and LRT projects. Similar to retained earnings, the fund is projected to have a positive cash balance three years earlier than projected in the original plan.

During 2001, the Radio Shop was moved out of the ESF and into the Property Services fund. This relieved the ESF of future debt service costs of \$350k annually. The future debt service payments were also reconfigured to match the useful lives of the assets being purchased. For example, a 15-year bond will be sold for a fire truck that has a 15-year useful life.

Future Action Items:

During 2003, a new rate model will be implemented that will more effectively match actual fleet operating and overhead costs with the class of equipment. This will result in more accurate rates per class of equipment but will have minimal effect on total revenues or expenses in the fund. In addition, it is expected the ESF will change its future equipment purchasing levels to accommodate the Fire Chiefs five-year apparatus plan. This will result in different annual equipment purchases and debt service but will have little overall effect on the fund. The deficit reduction plan format will be changed in 2003 to more closely resemble GASB 34 compliant financial statements.

Annual Reporting to the City Council on Progress:

The Finance Department will report annually to the City Council, at year-end, with a status update and any needed changes to this deficit reduction plan for the Equipment Services Fund. In addition, the Finance Department will provide updates to the Ways and Means Committee during its' City-wide quarterly financial status report.

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Operating Revenues:													
Charges for Service	334,208	950,251	375,000	1,041,520	984,492	1,018,949	1,054,612	1,091,524	1,129,727	1,169,268	1,210,192	1,252,549	1,296,388
Charges for Sales	3,107,219	3,531,056	2,506,000	3,240,500	3,305,310	3,371,416	3,438,845	3,507,621	3,577,774	3,649,329	3,722,316	3,796,762	3,872,697
Rents Public Works and Other	19,987,607	21,274,603	21,828,530	21,719,753	21,825,962	21,950,597	22,093,266	22,480,677	24,190,328	25,973,800	27,831,744	29,764,831	31,773,793
Rents Police	2,427,234	3,427,000	3,445,374	4,535,927	5,687,160	5,800,903	5,916,921	6,035,259	6,155,964	6,279,083	6,404,665	6,532,758	6,663,413
Rents Fire	1,187,501	1,187,501	3,211,251	3,305,000	3,364,490	3,425,051	3,486,702	3,549,462	3,613,353	3,678,393	3,744,604	3,812,007	3,880,623
Rents Radio Shop	1,832,410	1,629,852	280,000	315,000	315,000	315,000	315,000	315,000	315,000	315,000	315,000	315,000	315,000
Other Misc Revenues	555,502	481,775											
Total	29,431,682	32,482,039	31,646,155	34,157,700	35,482,414	35,881,916	36,305,346	36,979,544	38,982,146	41,064,877	43,226,521	45,473,907	47,801,915
Operating Expenditures:													
Personnel	15,250,350	16,067,018	15,100,000	17,835,056	18,370,108	18,921,211	19,488,847	20,073,513	20,675,718	21,295,990	21,934,869	22,592,915	23,270,703
Contractual Services	5,086,849	7,496,134	5,900,000	3,746,424	3,783,888	4,162,277	4,578,505	4,216,633	4,343,132	4,473,426	4,607,629	4,745,858	4,888,234
Operating Budget	3,493,835	4,275,825	4,402,153	4,650,970	4,650,970	4,697,480	5,167,228	5,218,900	5,271,089	5,323,800	5,377,038	5,430,808	5,485,116
Equipment (Tools & Radio)	164,137	5,315	165,000	201,889	201,889	207,946	214,184	220,610	227,228	234,045	241,066	248,298	255,747
Equipment (Fleet)	2,878,092	5,491,188	5,491,188	7,405,037	6,300,000	6,400,000	7,000,000	7,100,000	7,200,000	7,400,000	7,600,000	7,800,000	8,100,000
Capital	64,376	0	16,253										
Transfers	268,546	828,766	91,450	61,163	63,304	65,519	67,813	70,186	72,642	75,185	77,816	80,540	83,359
Total	27,206,185	34,076,834	31,166,044	33,698,650	33,370,159	34,454,433	36,516,577	36,899,842	37,789,810	38,802,446	39,838,419	40,898,420	42,083,159
Net Operating Gain/(Loss)	2,225,497	(1,594,795)	480,111	459,050	2,112,255	1,427,483	(211,231)	79,702	1,192,336	2,262,431	3,390,102	4,575,487	5,718,756
Non-Operating Revenues/(Expenditures):													
Interest	184	1,456		500	500	500	500	500	500	500	500	500	500
Gains on disposals	138,100	42,886	700,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000
Transfers In	104,967												
Transfer from Capital (Deferred Proj.)	47,145												
Work out equipment bonds													
Debt Service Work out Bonds		6,000,000	6,100,000	6,200,000	6,300,000	6,400,000	7,000,000	7,100,000	7,200,000	(6,451,300)	(5,870,538)	(4,993,488)	(3,740,226)
Workout Tsf from Genl Fund		(96,424)	(578,750)	(1,620,356)	(2,727,700)	(3,809,162)	(7,214,412)	(8,088,900)	(5,807,250)	(6,451,300)	(5,870,538)	(4,993,488)	(3,740,226)
Workout Tsf from Genl Fund		5,224,436											
Debt Service (Facilities)	(818,990)	(757,737)	(802,000)	(1,632,500)	(2,101,250)	(2,680,000)	(832,000)	(832,000)	(832,000)	(832,000)	(832,000)	(1,192,000)	(1,699,000)
Debt Service (working capital 8520)	(746,767)												
Retirement Incentive Costs	(141,670)												
Capital Equip (800Mzh)	(632,661)	(240,031)											
Non operating Income (Expense)	(1,159,551)	(445,935)	(408,508)										
Total	(3,209,243)	9,728,651	5,010,742	3,147,644	1,671,550	111,338	(845,912)	(1,620,400)	761,250	(7,082,800)	(6,502,038)	(5,984,988)	(5,238,726)
Net Change in Cash	(983,746)	8,133,856	5,490,853	3,606,694	3,783,805	1,538,821	(1,057,143)	(1,540,698)	1,953,586	(4,820,369)	(3,111,936)	(1,409,501)	480,030
Adjustments for Retained Earnings:													
Non Cash Expenditures													
Purchases	(6,944,555)	(5,892,915)	(3,738,211)	(4,471,576)	(4,331,760)	(4,938,407)	(5,524,343)	(5,862,488)	(6,070,141)	(6,148,124)	(6,641,338)	(7,401,135)	(8,428,567)
Bond Proceeds	3,623,214	6,276,467	5,656,188	7,405,037	6,501,889	6,607,946	7,214,184	7,320,610	7,427,228	7,634,045	7,841,066	8,048,298	8,355,747
Bond Principle		(6,000,000)	(6,100,000)	(6,200,000)	(6,300,000)	(6,400,000)	(7,000,000)	(7,100,000)	(7,200,000)	0	0	0	0
Total	(3,321,341)	(5,596,449)	(4,107,023)	(1,641,539)	(1,119,870)	(190,461)	709,841	1,173,122	(1,352,913)	6,650,921	5,994,728	5,127,164	3,857,180
Net Change in Retained Earnings	(4,305,087)	2,537,407	1,383,830	1,965,155	2,663,935	1,348,360	(347,301)	(367,576)	600,673	1,830,553	2,882,792	3,717,663	4,337,210
Retained Earnings:													
Beginning Balance	(1,933,237)	(6,238,324)	(3,700,917)	(2,317,087)	(351,932)	2,312,003	3,660,363	3,313,061	2,945,485	3,546,159	5,376,711	8,259,504	11,977,166
Ending Balance	(6,238,324)	(3,700,917)	(2,317,087)	(351,932)	2,312,003	3,660,363	3,313,061	2,945,485	3,546,159	5,376,711	8,259,504	11,977,166	16,314,376
Cash:													
Beginning Cash	(15,708,411)	(16,692,157)	(8,558,302)	(3,067,448)	539,246	4,323,051	5,861,872	4,804,729	3,264,031	5,217,617	397,249	(2,714,687)	(4,124,188)
Change in Cash	(983,746)	8,133,856	5,490,853	3,606,694	3,783,805	1,538,821	(1,057,143)	(1,540,698)	1,953,586	(4,820,369)	(3,111,936)	(1,409,501)	480,030
Ending Cash	(16,692,157)	(8,558,302)	(3,067,448)	539,246	4,323,051	5,861,872	4,804,729	3,264,031	5,217,617	397,249	(2,714,687)	(4,124,188)	(3,644,158)